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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 003345

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SUBJECT: SCT TALKS: NOTHING SPECIAL ON SPECIAL BUDGET

Classified By: AIT Director Douglas Paal, Reason(s): 1.4 (B/D)

11. (C) The Ministry of National Defense (MND) presentation to the formal opening round of U.S. Security Cooperation Talks (SCT) in Taipei on August 9, 2005, stated that Taiwan plans to increase its national defense spending to 3 percent of GDP, an annual increase of 50 billion NTD (USD 1.7 billion). After the presentation, Vice Admiral Liang Kung-Rai, Director General of the Strategic Planning Department (SPD), told the visiting U.S. interagency delegation that Minister of Defense Lee Jye is encouraged by recent statements by President Chen in support of the Defense Procurement Special Budget, but emphasized that the real challenge remains the Legislative Yuan (LY). Liang said MND Lee will meet with LY speaker Wang Jin-pyng after Wang's return from the U.S. on August 10 to discuss how to improve MND-LY cooperation to gain passage of the Special Budget.

12. (C) VADM Liang speculated that if the Special Budget is reduced or modified as part of an LY compromise, MND Lee Jye will probably give top priority to diesel submarines above the other weapons systems.

Pan-Blue Position

13. (C) During a separate meeting on August 9, PFP Legislator Sun Ta-Chien told AIT that although the PFP continued to object to any use of an LY Special Session to purchase military hardware, it would be willing to consider and pass a regular budget bill authorizing the purchase of the PAC-III anti-missile defense system and the P-3C antisubmarine aircraft. However, PFP leaders have serious concerns about the "old, outdated" design and lengthy delivery time of the submarines proposed in the Special Budget package, and would rather see that money spent on modern fighter aircraft. Sun told AIT that PFP leaders consider air superiority to be more important than submarine capability, and they may request the Taiwan government ask the USG to prepare a proposal for the sale of more advanced fighters to Taiwan.

14. (C) Sun's comments were echoed by KMT LY member and Ma Ying-jeou ally Wu Yu-sheng, who told AIT on August 10 that the KMT's top priorities are to strengthen Taiwan's missile defense and air defense capabilities, with submarines placing a distant third. Wu added that Taiwan's economy had worsened since 2001, making large-scale weapons purchases less affordable. He argued that Taiwan should lower its sights and purchase only those weapons systems that immediately improve its security situation.

NSC Deputy SecGen Comments

15. (C) During his meeting with the visiting U.S. delegation on August 8, NSC Deputy SecGen Henry Ko (Cheng-heng) told the delegation that in an August 4 meeting, President Chen Shui-bian stated that Taiwan needs to: 1) Reinforce its defense capability; 2) Increase its defense budget to 3 percent of GDP; and 3) Pass a modified Special Budget and move unfunded weapons systems into the annual defense budget to be presented to the regular LY session in September.

16. (C) Additionally, Ko volunteered that Taiwan would be prepared to assist in advancing U.S. efforts in Southeast Asia upon request. Ko made this comment in response to DOD Security Cooperation Operations/DSCA Principal Director Ed Ross's earlier statement that the U.S. is actively addressing the terrorism threat in the region.

17. (U) Despite Chen's emphasis on increasing the defense budget to 3 percent of GDP by 2008, Premier Frank Hsieh told the local press August 10 that it would probably be extremely difficult to increase the defense budget over the next few years given Taiwan's financial situation.

Comment

18. (C) While Taiwan MND officials acknowledged the continued challenge posed by lack of a Special Budget, during this opening round there was little discussion of the steps that MND plans to take to continue to push for its passage, nor did MND formally discuss other options or scenarios for

funding defense purchases. While reports of improved cooperation between MND Lee Jye and LY Speaker Wang are good news, there is little to indicate this effort will make real progress towards passage of the Special Budget. In fact, if Liang's speculation regarding Lee Jye's preference for submarines is correct, then it signals the gulf between the MND and LY on the Special Budget remains as wide as ever.

PAAL